

**SEMI-ANNUAL REPORT**

**FOR THE PERIOD 1 JANUARY – 30 JUNE 2023**

**Zagreb, August 2023**



**STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF SEMI-ANNUAL REPORT**

To the best of our knowledge the management report for the period 1 January – 30 June 2023 contains a truthful development of events and business results as well as the position of the Croatian Bank for Reconstruction and Development and the Group, and the description of the most significant risks and contingencies the Croatian Bank for Reconstruction and Development and the Group are exposed to.

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| --- | --- | --- |
| President of the Management Board | Member of the Management Board | Member of the Management Board |
|  |  |  |
| Hrvoje Čuvalo, MSc | Alan Herjavec, MSc | Josip Pavković |

Zagreb, 24 August 2023

**MANAGEMENT REPORT FOR THE PERIOD**

**1 JANUARY – 30 JUNE 2023**

**RESULTS OF THE GROUP**

**BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF hbor GROUP**

-in millions of euros-

|  |  |  |  |
| --- | --- | --- | --- |
|   | **2021** | **2022** | **30 June 2023** |
| **Total assets** | 3,753.2 | 3,857.0 | 3,909.4 |
| **Gross loans**  | 3,494.5 | 3,703.4 | 3,841.9 |
| **Total equity** | 1,403.8 | 1,422.2 | 1,451.7 |
|   | **1 January – 30 June 2021** | **1 January – 30 June 2022** | **1 January – 30 June 2023** |
| **Total income**  | 67.6 | 75.1 | 58.4 |
| **Total expense** | (26.1) | (25.7) | (28.6) |
| **Profit**  | 41.5 | 49.4 | 29.8 |
| **Interest income calculated on the basis of effective interest rate method** | 44.8 | 43.6 | 44.3 |
| **Interest expense**  | (12.9) | (10.5) | (12.3) |
| **Net interest income**  | 31.9 | 33.1 | 32.0 |

 

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**Results of the Group**

In the period 1 January – 30 June 2023, the HBOR Group generated profit after tax in the amount of EUR 29.8 million.

Pursuant to the provisions of the Act on HBOR, the parent company is exempt from income tax and income tax liabilities arise exclusively from the activities of the other members of the Group.

In the period 1 January – 30 June 2023, total income on consolidated basis amounted to EUR 58.4 million, whereas total expenses amounted to EUR 28.6 million.

The consolidated total income decreased by 22.2 percent, whereas total expenses increased by 11.3 percent compared to the same period previous year due to the developments in total income and expenses of the parent company.

In the structure of income of the Group, the largest portion, i.e. 75.9 percent, relates to interest income as a result of operations of the parent company.

The major part of total expenses, relates to operating expenses (46.2 percent) and interest expense (43.0 percent) arising from the operations of the parent company.

The consolidated operating expenses in the period 1 January – 30 June 2022 amounted to EUR 13.2 million and consisted of general and administrative expenses and other operating expenses.

On 30 June 2023, the Group had 414 employees (on 30 June 2022: 392 employees).

**Assets and liabilities of the Group**

Total assets of the Group on consolidated basis amount to EUR 3,909.4 million, an increase of 1.4 percent compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR’s financial performance.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 86.4 percent of total assets.

Total liabilities and total equity as at 30 June 2023 amount to EUR 3,909.4 million, of which amount total liabilities equal EUR 2,457.7 million, i.e. 62.9 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 56.8 percent, consists of borrowings of the parent company.

At the end of the reporting period, total equity on consolidated basis amounted to EUR 1,451.7 million and accounted for 37.1 percent of total liabilities and total equity of the Group.

  

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\*Property, plant and equipment and intangible assets, Foreclosed assets, Debt securities at AC and Other assets.

\*\*Provisioning includes provisioning for guarantees, commitments and other liabilities.

**RESULTS OF HBOR**

**OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR**

The following text gives an overview and explanation of the significant changes in financial position and operating performance in the reporting period.

**Financial performance**

In the period from 1 January to 30 June 2023, HBOR generated total income of EUR 56.9 million, expenses of EUR 27.4 million and profit in the amount of EUR 29.5 million. HBOR’s profit generated in the reporting period decreased by EUR 19.7 million compared with the profit generated in the same period last year.

The decrease in profit in the period from 1 January to 30 June 2023 compared with the same period last year is a result of a decrease in total income by EUR 17.2 million and an increase in total expenses by EUR 2.5 million.

The circumstances that affected the financial result achieved in the six-month reporting period 2023 compared to the results generated in the same period in 2022 are:

* increase in interest income of EUR 0.7 million,
* increase in interest expenses of EUR 1.8 million,
* increase in net income from fees and commissions of EUR 0.8 million,
* decrease in net gains from financial activities in the amount of EUR 5.1 million,
* decrease in other income of EUR 0.1 million,
* decrease in impairment gain and provisions by EUR 16.3 million,
* decrease in operating expenses of EUR 2.1 million,

A detailed description of trends is given for each category separately in the following text.

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***Net interest income***

Net interest income amounted to EUR 31.9 million, a decrease of 3.3 percent on the same period of the previous year.

Interest income amounted to EUR 44.2 million, an increase of 1.6 percent on the same reporting period last year due to the increase in interest rates and the volume of lending activities.

Interest expenses amounted to EUR 12.3 million, an increase of 17.1 percent on the same reporting period last year, which is the result of growth of borrowings and rise in interest rates.

Given the described trends, the greater increase in interest expenses compared with the increase in interest income affected the decrease in net interest margin compared to the same reporting period of the previous year that amounts to 1.6 percent, while in the same period of the previous year it amounted to 1.8 percent.

***Net fee income and commission income***

Net fee and commission income amounted to EUR 2.2 million, an increase of 57.1 percent compared with the same reporting period last year due to an increase in income from fees and commissions for transactions in the name and for the account due to the increase in the volume of these transactions.

***Net gains/(losses) on financial operations***

Net gains/(losses) on financial operations are comprised of net foreign exchange gains/(losses) on the principal amount of receivables and liabilities, gains/(losses) arising out of value adjustment of financial assets stated at fair value through profit or loss and realised gains/(losses) arising out of financial assets at fair value through other comprehensive income.

In the reporting period, net losses from financial activities amounted to EUR 2.7 million, whereas, in the same reporting period previous year, net gains amounted to EUR 2.4 million.

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A breakdown of changes in the exchange rate of the euros against the USD:

 

 Note:

 A1 = EUR appreciation 30.6.2023/31.12.2022

 A2 = EUR appreciation 30.6.2023/30.6.2022

Funds and sources of funds that are denominated in another currency or are indexed to the currency clause are converted by HBOR into the equivalent value in EUR at the middle exchange rate of HBOR or another agreed exchange rate on the reporting date.

Revenues and expenditures in another currency are converted at the exchange rate on the transaction date. The resulting foreign exchange gains or losses are recorded in the Profit or Loss Account in net figures.

***Operating expenses***

Operating expenses that include general and administrative expenses and other operating expenses stood at EUR 12.0 million, a decrease of 14.9 percent compared with the same reporting period last year, mainly due to a decrease in other expenses by EUR 3.1 million (recalculation costs).

On 30 June 2023, HBOR had 392 employees (on 30 June 2022: 373 employees).

***Impairment gain/(loss) and provisions***

In the reporting period, a net gain from impairment of placements in the amount of EUR 9.2 million was recorded (in the period 1 January – 30 June 2022: net gain in the amount of EUR 25.5 million).

The text to follow contains a breakdown of portfolio quality:

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**Overview of total gross portfolio and provisions by structure – financial institutions and direct**

|  |  |  |
| --- | --- | --- |
|  | **2022** | **Jun 30, 2023** |
|  | **In millions of euros** | **Breakdown****(percent)** | **In millions of euros** | **Breakdown****(percent)** |
| **Total gross portfolio** | **4,708.8** | **100.00** | **4,855.4** | **100.00** |
|  **Of which:** |  |  |  |  |
|  **- financial institutions** | 1,323.3 | 28.1 | 1,362.4 | 28.1 |
|  **- direct** | 3,385.5 | 71.9 | 3,493.0 | 71.9 |
| **Total provisions** | **482.8** | **100.00** | **482.2** | **100.00** |
| **Of which:** |  |  |  |  |
| **- financial institutions** | 9.1 | 1.9 | 8.3 | 1.7 |
| **- direct** | 473.7 | 98.1 | 473.9 | 98.3 |
| **Provisions/gross portfolio** | **10.3 percent** | **-** | **9.9 percent** | **-** |

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**Significant changes in financial position**

Total assets of HBOR as at 30 June 2023 amounted to EUR 3,906.2 million, an increase of 1.4 percent compared to the beginning of the year due to the increase in loans and financial assets at fair value through profit or loss.

***Cash on hand and deposits with other banks***

As at 30 June 2023, cash on hand and deposits with other banks amounted to EUR 152.4 million representing 3.9 percent of total assets, a decrease of 33.5 percent compared with 31 December 2022 as a result of reallocation of liquidity reserve funds.

***Loans to financial institutions and other customers***

As at 30 June 2023, total net loans amounted to EUR 3,379.2 million representing 86.5 percent of total assets, an increase 4.4 percent on the beginning of the year.

Total gross loans amounted to EUR 3,841.9 million, an increase of 3.7 percent compared with 31 December 2022. Gross loans to other customers increased by 3.2 percent compared with the end of 2022. Gross loans to financial institutions increased by 5.4 percent compared with the end of 2022 due to the increase in placements under new loan programmes and the loan programme for the promotion of small and medium-sized entrepreneurship.

As at 30 June 2023, the proportion between gross loans on-lent through financial institutions and direct placements stood at 26 percent : 74 percent (31 December 2022: 25 percent: 75 percent).

***Financial assets at fair value through profit or loss***

Loans at fair value (HBOR has determined that mezzanine loans are classified here), investments in investment funds and a part of equity instruments are classified to these assets. As at 30 June 2023, the total amount of these assets was EUR 47.5 million representing 1.2 percent of total assets and the increase is the result of a new mezzanine loan.

***Financial assets at fair value through other comprehensive income***

***a) Debt instruments***

Bonds of the Republic of Croatia and treasury bills of the Ministry of Finance as part of liquidity reserve as well as bonds of a company are classified to these assets. On the reporting date, they amounted to EUR 297.7 million, representing 7.6 percent of total assets and recorded a decrease compared to the beginning of the year by 13.3 percent.

The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to EUR 0.6 million in other reserves.

***b) Equity instruments***

Equity instruments (shares of companies) that HBOR does not intend to sell and to which irrevocable option of subsequent measurement of fair value through other comprehensive income without recycling is applied are classified to these assets, i.e. reserves recognised under other comprehensive income will never be transferred to the statement on profit or loss.

On the reporting date, these assets amounted to EUR 7.8 million, representing 0.2 percent of total assets.

  

  

***Total liabilities***

As at 30 June 2023, total liabilities amounted to EUR 2,454.9 million, which represents 62.9 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR’s foreign borrowings in the total amount of EUR 2,220.4 million.

Borrowings increased by 1.4 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the following table:

|  |  |
| --- | --- |
|  | (in millions of euros) |
| - Draw-down of funds borrowed under previously contracted funds of special financial institutions  | 221.0 |
| - Repayments of borrowings | (190.6) |
| - Foreign exchange gains or losses | (0.6) |
| - Other calculations \* | 0.5 |
| **Total changes** | **30.3** |
|  |  |
| *\* Other calculations relate to changes in amount of interest not due and deferred fees.* |

***Total equity***

Out of the total amount of total liabilities and total equity, EUR 1,451.3 million or 37.1 percent relate to total equity.

Total equity of HBOR is comprised of the capital and the guarantee fund. HBOR’s capital is comprised of founder’s capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves and profits for the current period.

The total amount of capital contributed from the budget of the Republic of Croatia stood at EUR 899.6 million, and the remaining amount to be contributed to the founder’s capital up to the total amount of EUR 929.1 million set by the HBOR Act is EUR 29.5 million.

  

  

\*Investments in subsidiaries, Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

\*\* Provisioning includes provisioning for guarantees, commitments and other liabilities.